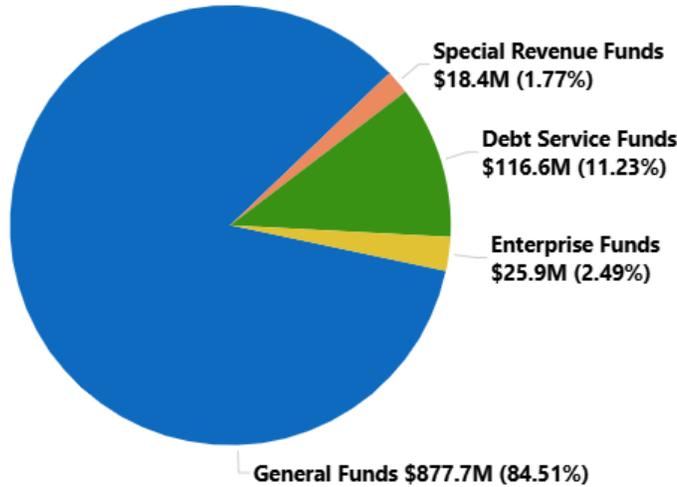




**Durham County Government**  
**Budget Overview in Preparation for FY 2026-27 Budget Development**

**Budget Overview**

**Durham County Total Budget: \$1,038,472,275**



Durham County Government’s approved FY 2025-26 budget totals \$1.038 billion from the General, Debt Service, Enterprise, Special Revenue and Trust funds. 84.5% of the budget is maintained within the General Funds, which include the following categories or sub funds: General, Risk Management, SWAP, Capital Finance, Reappraisal Reserve, Leo Separation, and Benefits.

The General Fund (66.4% of Durham County total budget) is where most department budgets reside and where the major focus of annual budget deliberations occur. The Capital Finance Fund is where various sources of funding are collected to support annual debt service payments. The Risk Management and Benefits

funds are self-funded insurance funds. The overview below highlights the General Fund budget activities.

**General Fund: \$689.7M**

Revenues			
Revenue Category	FY 2024-25 Approved	FY 2025-26 Approved	Fiscal Year % Difference
Taxes	\$510,166,291	\$544,353,416	6.70%
Licenses and Permits	\$367,000	\$364,000	-0.82%
Intergovernmental	\$73,076,834	\$75,615,972	3.47%
Contributions and Donations	\$301,650	\$216,000	-28.39%
Investment Income	\$5,030,000	\$7,815,000	55.37%
Rental Income	\$760,200	\$673,550	-11.40%
Service Charges	\$31,866,150	\$31,988,959	0.39%
Enterprise Charges	\$17,000	\$17,500	2.94%
Other Revenues	\$587,225	\$494,600	-15.77%
Transfers In	\$30,298,835	\$28,168,787	-7.03%
<b>Total</b>	<b>\$652,471,185</b>	<b>\$689,707,784</b>	<b>5.71%</b>

Expenditures			
Expenditure by Functional Area	FY 2024-25 Approved	FY 2025-26 Approved	Fiscal Year % Difference
General Government	\$181,607,958	\$193,312,411	6.44%
Public Safety	\$89,138,365	\$95,104,406	6.69%
Transportation	\$4,657,932	\$4,544,472	-2.44%
Environmental Protection	\$6,901,858	\$7,866,848	13.98%
Econom. & Physical Devlp.	\$9,804,532	\$10,419,457	6.27%
Human Services	\$113,243,104	\$114,315,668	0.95%
Education	\$230,521,600	\$246,826,645	7.07%
Cultural & Recreational	\$16,595,836	\$17,317,877	4.35%
<b>Total</b>	<b>\$652,471,185</b>	<b>\$689,707,784</b>	<b>5.71%</b>

\*Note: 54.18% of General Government is made up of transfers to other funds to support debt service payments, benefits, and other expenses



## General Fund

### Revenues

Several major revenue sources support the General Fund, with 78.93% funded by property, sales, occupancy, and other local taxes. The next significant revenue sources are the federal, state, and local intergovernmental revenues, which comprise 11% of the General Fund budget. Service Charges, Other Financing Sources - including fund balance - and other miscellaneous revenues comprise the remaining revenue. The below table reflects summary revenue category growth over two years.

In the above table, appropriated General Fund fund balance is folded up in the "Transfers In" revenue grouping and accounts for \$23.88 million of the total \$28.16 million shown.

Revenues		
Revenue Category	FY 2025-26 Approved	% of Total
▲		
Taxes	\$544,353,416	78.93%
Licenses and Permits	\$364,000	0.05%
Intergovernmental	\$75,615,972	10.96%
Contributions and Donations	\$216,000	0.03%
Investment Income	\$7,815,000	1.13%
Rental Income	\$673,550	0.10%
Service Charges	\$31,988,959	4.64%
Enterprise Charges	\$17,500	0.00%
Other Revenues	\$494,600	0.07%
Transfers In	\$28,168,787	4.08%
<b>Total</b>	<b>\$689,707,784</b>	<b>100.00%</b>

### Expenditures

35.8% of the General Fund expenditure budget supports the Education function, with Durham Public Schools (\$224.5M) and Durham Technical Community College (\$12.62M) comprising most of the expenses.

As noted in an earlier table, 54.08% of General Government is made up of transfers to other funds to support debt service payments, benefits, and other expenses. In the General Government function, a transfer of dollars funds the County's Capital Finance Fund for debt service (\$58.8M) and employee benefits (\$44.9M). Some of the other General Government administrative operations include the Register of Deeds, Tax Administration, Information Technology, and County Administration.

The Human Services function totals 16.57% of the General Fund budget. Within the Human Services function, the Department of Social Services (\$67.38M), Public Health (\$39.56M) and Mental Health (\$4.5M) expend the majority of the funds.

The Public Safety function totals 13.79% of the General Fund budget with \$53.58 million allocated for the Sheriff's Office. Emergency Services (\$27.9M), Justice Services Department (\$7.5M), and Youth Home (\$4.1M) are the other major public safety expenditures.

The final highlight is the Cultural and Recreational function. This function is 2.51% of the General Fund budget with most of the funds supporting Durham Library operations at \$14.7M and support for the NC Museum of Life & Science at \$2.5M. The table reflects summary expenditures by function.

Expenditures		
Expenditure by Functional Area	FY 2025-26 Approved	% of Total
▲		
General Government	\$193,312,411	28.03%
Public Safety	\$95,104,406	13.79%
Transportation	\$4,544,472	0.66%
Environmental Protection	\$7,866,848	1.14%
Econom. & Physical Devlp.	\$10,419,457	1.51%
Human Services	\$114,315,668	16.57%
Education	\$246,826,645	35.79%
Cultural & Recreational	\$17,317,877	2.51%
<b>Total</b>	<b>\$689,707,784</b>	<b>100.00%</b>

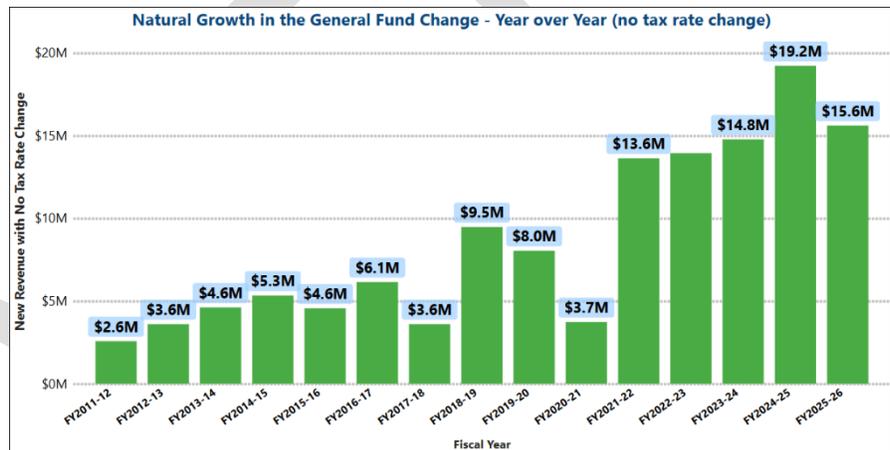


## Historical Trending in Order to Look Ahead

Since the 2008 “Great Recession,” criteria used by Moody’s and Standard & Poor’s have placed increased emphasis on the importance of long-term planning. Such forecasting is critical for recurring operating expenses and long-term debt management. Historically, there has been variable revenue growth in the major revenue categories, including property taxes, sales taxes, and intergovernmental revenues. The tables below show the growth patterns in three major revenue categories.

The first table shows the impact of the change in property tax revenue from one year to the next for the County’s General Fund. This table displays the natural growth each year in this revenue source without any property tax rate increase. Presenting the data in this format shows how much tax revenue is increasing year over year before any tax rates changes also impact that figure. For example, the FY 2025-26 data shows a growth of \$15.6 million in natural revenue for the year; these are new available dollars with no increased burden on the citizens. But the current year natural growth is down, year over year, from FY 2024-25.

Higher growth in property valuation results in higher growth in property tax revenue, without a property tax rate increase. Higher property valuation comes from either improvement to land and buildings or new buildings. This can be both positive and a negative - positive as it relates to new industry coming into the County and general economic growth, and negative in that part



of growing property valuation can come from increased residential home prices, which can make home ownership harder for Durham County residents.

It should be noted that a significant amount of property valuation growth over the last several years has come from the downtown Durham area and large portions of that growth have been residential in nature. And while property valuation growth is positive in relation to property tax collected, the cost of supporting residential needs (people vs. structure) will be felt in the near future by Durham County government. Higher property valuation could mean potentially higher tax bills for many Durham County residents in the future. Another question/concern that is always present is will the County need such continuous growth to offset expenditure growth, both “built-in” and expansion.

Another significant revenue source is sales tax. This revenue is highly dependent on overall economic health in the region, as people spend money when they generally have a job and/or job stability. This region has, better than most, weathered the “great recession” discussed earlier, with lower unemployment than the rest of the state. But the current state legislature has been concerned about what it deems “unequal distribution” of current sales tax laws and has been working to make changes to that process to help rural counties.



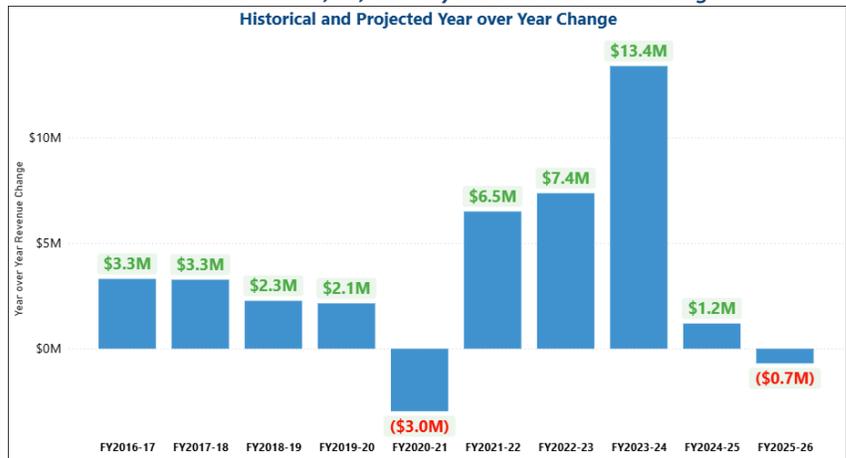
## Durham County Government Budget Overview in Preparation for FY 2026-27 Budget Development

Structural changes to local sales tax collection could significantly alter the growth outlook of this revenue for Durham County. Also, the economy has been on a very long growth streak, but at some point, will experience another recession. The County must be prepared for a downturn and react accordingly.

The impact of COVID on the local economy has been significant, but not in the ways originally anticipated. As part of FY 2020-21 budget development, the Durham County Budget Office expected that the pandemic would create something of a mini-recession due to mandates and quarantines. This was also based on regional and national economic forecasts on the 2020 and 2021 fiscal outlook. Fortunately for Durham County, that did not happen, and growth in local sales tax revenue was extremely robust over three years. Strong growth in local sales tax for FY 2022-23 continued into budget estimates for FY 2023-24. For FY 2024-25 and FY 2025-26 there was a HUGE drop-off in the “delta” amount of sales tax growth largely due to slowing sales tax growth for Durham County. In fact, the entire state saw overall slowing sales tax growth. The major issue for Durham was that it saw slower growth than most other counties in the state largely because it had seen higher growth in previous years. An axiom might be “the higher you climb the farther you have to fall”. Also, there was a minor revenue loss due to a change in the City of Durham sales tax interlocal agreement that occurred as part of the FY 2024-25 budget.

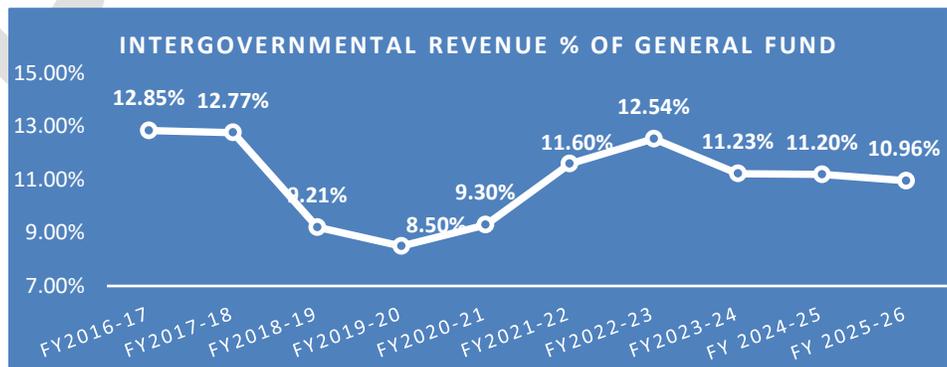
Article 39 (1 cent), Article 46 (education directed), and city interlocal sales tax are available to support General Fund budget growth. The remaining sales tax revenues are dedicated to support debt service payments or designated expenses. The chart above shows growth patterns for historical fiscal years. FY 2025-26 budgeted sales tax “negative” growth was largely predicated on surprisingly slower collections from FY 2024-25. That slowing growth limited the availability of additional revenue for FY 2025-26. The County will continue to adjust revenue estimates accordingly in outlying years. Early estimates for FY 2026-27 should see growth in this important revenue source based on early trending of actual sales tax collection in FY 2025-26.

Sales Tax Article 39, 46, and City ILA Year over Year Change



Article 39 (1 cent), Article 46 (education directed), and city interlocal sales tax are available to support General Fund budget growth. The remaining sales tax revenues are dedicated to support debt service payments or designated expenses. The chart above shows growth patterns for historical fiscal years. FY 2025-26 budgeted sales tax “negative” growth was largely predicated on surprisingly slower collections from FY 2024-25. That slowing growth limited the availability of additional revenue for FY 2025-26. The County will continue to adjust revenue estimates accordingly in outlying years. Early estimates for FY 2026-27 should see growth in this important revenue source based on early trending of actual sales tax collection in FY 2025-26.

Intergovernmental revenues shrunk as a percentage of the total General Fund budget up until FY 2020-21, while related expenditure costs continue to rise. Intergovernmental revenue growth up through FY 2022-23 was generally related to ongoing COVID support from Federal and State agencies, but as part of the current fiscal year we expect intergovernmental revenue



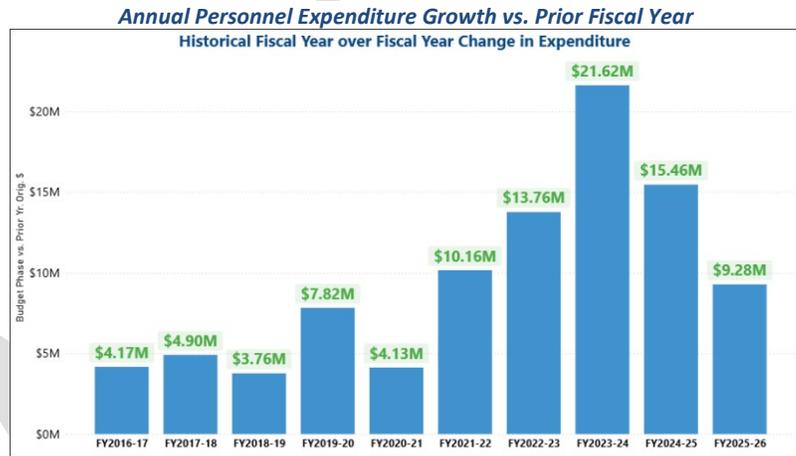


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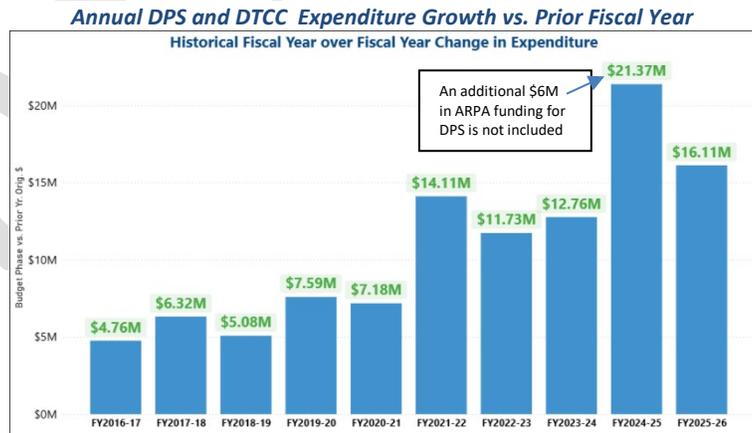
to continue moving in a downward direction and continue to trend down into FY 2026-27 and future years. As with many counties, we have seen increased pressures on mandated services without the offsetting federal and/or state revenue to support the increased expenses. As an example, in FY 2019-20 Medicaid compliance rules forced unplanned expenditure increases in our Social Services department. Additionally, state Medicaid expansion will increase County Human Services expenditures either directly or indirectly. This example points out growing costs related to services provided without corresponding revenue to support those increasing expenditures. Changes in Federal funding support for several Social Services and Public Health programs will continue expenditure cost increases as well as decreased intergovernmental revenue support.

Expenditure trends are moving in the opposite direction of revenues. Where revenue growth is slowing, expenditure growth (particularly from “built-in” costs) is increasing. A quick review of several major expenditures will illuminate this growth.

The graph to the right shows General Fund personnel cost growth over the last ten years. What is noticeable is the increasing amount needed for the last four years. This is partially due to an increase in the number of new positions being created each year, but also reflects increasing salary and benefits costs related to existing positions. This annual growth is the single biggest expenditure increase that the County has to contend with each year.



The second biggest annual expenditure growth for the County is focused on education support, which includes annual increases for DPS, DTCC, and Pre-K services. Over the last five years, annual education expenditures have increased \$76 million. The last five years have seen annual increases each year of well over \$10 million. If annual personnel growth is included, then FY 2025-26 saw \$25.4 million in new expenditures just in these two areas.



### In summary

The aforementioned revenue and expenditure examples show the challenges with projecting fiscal trends as well as estimating availability due to variable revenue growth, the unpredictable patterns of federal and state funding trends, and lingering effects of pandemic related economic reactions.

Of particular concern is discussion at the state legislature level about limiting property tax growth for cities and counties throughout the state. Property tax levy decisions are the single biggest “tool” elected officials have to support the many and varied programs and activity costs that make up a local



## Durham County Government Budget Overview in Preparation for FY 2026-27 Budget Development

government. Property tax levy decisions also allow elected officials to expand or enhance programs and services as needed and directed by citizen interaction. If this particular tool is blunted, local choice as carried out through elected official budget decisions will be severely limited.

In addition to these unknowns, there is an overall Budget Office expectation for continued “measured” revenue growth. But that “measured” growth will most likely be significantly lower than previous year’s growth in the same revenues. The effect of slower revenue growth offset by growing “built-in” expenditures such as personnel costs, benefits support, and increased education support will limit available dollars for departmental use and/or program expansion.

### FY 2026-27 Budget Development Framework

#### 1. Evaluate the Return on Investment (ROI)

- a. Are there opportunities to decrease, realign, or merge efforts?
- b. For County departments, there is an increased scrutiny of historical budget trends and evaluation of mandated services allocations compared to funding levels above peer amounts.
- c. Identify operational efficiencies

#### 2. Seek to limit property tax increase as a solution versus process improvement and strategic reallocation of existing funding

#### 3. Draft Revenues Assumptions (preliminary)

- a. Expected natural growth in property tax valuation
- b. Slow to moderate sales tax growth
- c. Potential intergovernmental revenue declines
- d. Minimal charges and fee growth

#### 4. Draft Expenditure Assumptions (preliminary)

- a. Expanded support for Durham Public Schools
- b. Continued funding increase in support expanding Pre-K services
- c. Federal and/or State policies that may shift local service burden
- d. Significant benefits increase
- e. State mandated increase in Retirement funding for County Employees
- f. Minimal department “New Initiatives”

#### Preliminary FY 2026-27 Planning

- Strategic priorities followed/enacted
  - a. Better prepared to guide future budgets starting with FY 2025-26
- Net new funding (without a tax increase) lower than previous years
  - a. Significant “built-in” expenditure increases
  - b. Slower revenue growth
- Closely review existing departmental spending and priorities
  - a. Reallocate existing budgets/positions where appropriate